

ROCHESTER PUBLIC LIBRARY  
MONROE BRANCH  
CASH HANDLING REVIEW

Office of Public Integrity  
Date: February 7, 2013

## I. EXECUTIVE SUMMARY

In this review the Office of Public Integrity (OPI) examined accountability of reported cash collections, the adequacy of internal control procedures, and compliance with City and library cash handling policies at the Monroe Branch Library. We accounted for all reported cash receipts within the test period. Additionally, the results of this review indicate, in general, adequate internal control procedures over the branch's operations and compliance with City and library cash handling policies. However, we noted the following findings that require management attention to improve administrative and internal controls and to ensure compliance with prescribed policies.

- ◆ Monroe Branch Library personnel do not reconcile daily cash register summaries to daily CARL (Colorado Alliance of Research Libraries) system transaction summaries.
- ◆ Monroe Branch Library personnel do not immediately endorse checks when they receive them as is required per the City's Cash Collection Policies.
- ◆ The Monroe Branch Library routinely sells used books. We noted that library personnel do not charge and collect sales tax on these book sales. Per New York State Department of Taxation and Finance regulations, these types of sales are subject to sales tax.
- ◆ OPI noted several instances in which library staff did not properly document fee waivers. Library policy requires that all staff properly document all fee waivers. Additionally, we noted fee waivers for family members of one library employee. Library policy allows fee waivers for library staff but this does not include their family members.

## II. BACKGROUND, OBJECTIVES AND SCOPE

### A. Assignment

The Office of Public Integrity routinely examines systems and City-administered cash collection processes as well as compliance with established policies. As part of our annual work program we conducted an examination of cash receipts reported by the Monroe Branch Library.

### B. Background

The Monroe Branch Library lends and receives library materials, collects fines, and provides information to patrons. In conjunction with these

responsibilities, the unit handles cash transactions resulting from fines, reserves, book sales, lost books and audiovisual materials, printing fees and the sale of computer disks and flash drives. For the fiscal year ended June 30, 2012, the Monroe Branch Library reported revenue of \$18,780.

C. Objective and Scope

The objectives of the review were to assess the adequacy of internal controls over daily receipts, to determine the validity of reported cash receipts and to determine that library employees follow City and library cash handling policies. The Office of Public Integrity examined all recorded cash transactions at the Monroe Branch Library during the period January 1, 2012 through June 30, 2012. During this period, the branch reported revenue of \$9,676.51. The review included an analysis of cash handling procedures and an examination of supporting documentation.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The results of our testing indicate, in general, adequate internal control procedures over the branch's operations and compliance with City and library cash handling policies. Additionally, we were able to determine that branch

personnel deposited all revenue recorded on the cash register. However, we noted the following deficiencies in administrative and internal control and non-compliance with prescribed policies that require management attention.

A. Library Personnel Do Not Reconcile the Daily Cash Register Summaries to the CARL System

Monroe Branch personnel enter cash collection transactions in both the cash register and the CARL system, which is the library automation system of material available for borrowing, material on loan to patrons, patron history and a history of cash transactions. The two systems are not integrated. That is, the cash register provides summaries of cash activity only, while the CARL system provides information regarding material on loan and delinquent material outstanding by patrons, fine amounts due, and payment information.

Cash collection transactions entered in the cash register do not flow to the CARL system. As a result, personnel have the ability to enter cash collections into CARL, reflect fines and all other types of cash collections as paid (thereby reflecting patron accounts as current), however, not enter those transactions on the cash register. Library personnel only reconcile daily cash register summaries to daily deposits.

This condition creates the potential for abuse. Personnel have the ability to manipulate cash collections in the CARL system, not record them in the cash register and not include them in daily deposits.

◆ Recommendation

The Library should determine if there is a possibility of interfacing the cash registers with the CARL system to ensure that all payment transactions entered into CARL are entered into the cash register. If not possible, Library personnel should periodically reconcile daily cash register summaries to daily CARL system transaction summaries in order to substantiate reliance on reported cash collections.

B. Checks Not Restrictively Endorsed Upon Receipt

The City's Cash Collection Policies require that all checks be restrictively endorsed immediately upon receipt and that the restrictive endorsement must state that the check is for deposit only in a City of Rochester account. Restrictively endorsing checks upon receipt lessens the likelihood that checks can be stolen and improperly cashed.

OPI noted that Library personnel do not endorse checks with a restrictive endorsement stamp immediately upon receipt. Rather, they endorse checks on the next business day when they prepare the receipts for deposit.

◆ Recommendation

We recommend that Library personnel comply with City policy and restrictively endorse all checks immediately upon receipt.

C. Unpaid New York State Sales Tax From Book Sales

The Monroe Branch Library sells used books to patrons. During our test period the branch recorded \$719.53 in book sales. OPI noted that the library does not charge and collect sales tax on these book sales.

New York State Department of Taxation and Finance Publication 843 “A Guide to Sales Tax in New York State for Exempt Organizations” states “Generally, sales by New York governmental entities of tangible personal property or services that are ordinarily sold by private persons are subject to sales tax”. City Law personnel verified that book sales by the library fall under this requirement. As a result of this review, Library personnel are evaluating options to ensure that they comply with this requirement.

◆ Recommendation

The libraries should begin charging and collecting sales tax for book sales. The City should submit the sales tax from these sales to New York State.

D. Undocumented and Unallowable Fee Waivers and Cancellations

Library policy allows staff to waive fines and fees for library employees. Prior to September 2012, there was no limit on the amount of fines and fees that they could waive. In September 2012, the Library Board approved a revised policy that allows designated Library personnel to clear employee fines and fees up to \$25. Library policy also requires that staff document all fees and fines that they waive on a “Fines and Fees Waiver Form”.

OPI examined all library fees recorded on the CARL system during the period January 1, 2012 through June 30, 2012. During this period we noted 650 instances totaling \$1,725.10 in which library personnel waived

and cancelled fees and fines. This included 399 instances totaling \$680.30 in waived fees for library staff. During this test work we noted that:

1. Thirty-five of the staff waivers totaling \$29.95 were for family members of one library employee. The employee indicated to the branch manager that she thought the fee waiver policy included family members. As a result of this review, the branch manager informed the employee that this was not allowable. The employee indicated that she would adhere to the policy in the future.
2. Library personnel did not document waived fees on a "Fines and Fees Waiver Form" for \$776.22 or 45% of the \$1,725.10 of waived fees.

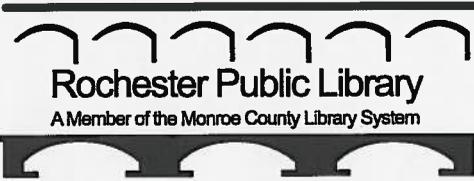
The absence of documentation that supports proper fee waivers and cancellations and the lack of explanations of the underlying circumstances raise the possibility of unauthorized fee waivers and cancellations. Without this information and the written approval of branch management, it is possible for any employee to make a notation of waived and cancelled fees without authorization. A lack of supervisory review and documentation of appropriate approvals of fee waivers and cancellations can potentially lead to abuse and theft of cash collections.

◆ Recommendation

Library personnel should properly document the justification and approval of each waived or cancelled fee.

IV. DEPARTMENT RESPONSE

The response of the Library to this report begins on the next page.



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**To: George Markert, Director/Office of Public Integrity**

**From: Patricia Uttaro, Director/Rochester Public Library** 

**Date: February 1, 2013**

**Subject: Rochester Public Library (RPL) – Monroe Branch Cash Handling Audit**

The City's Office of Public Integrity (OPI) conducted an audit of the Monroe Branch Library beginning in August 2012. RPL provided information to inquiries through September and again in November and December due to audit staff changes at OPI.

We appreciate the time taken by OPI staff, both in the audit process and during our review of the audit on January 15, 2013. It should be noted that OPI found adequate internal controls, general compliance with cash handling policy and reconciliation of all revenues recorded. This memo outlines recommended RPL Management responses to each of the administrative control recommendations from OPI.

1. Interfacing RPL cash registers with the CARL system: With new reporting capabilities in CARLX from the 2011 upgrade, an audit trail report can be generated with less manipulation required than in prior CARL versions. Note that it will only track CARL transactions (lost, fines, manual fines, collection fee), and will exempt transactions that aren't attached to the patron's record (sold items, donations, vending charges, etc.) Also of note is the fact that cash transactions occur for library users who do not have a patron card.

RPL Recommendation: The value of the CARL system is as an additional validation for register transactions. A daily reconciliation is not recommended as time spent remains significant; rather, it is recommended that a procedure for instituting periodic Branch Supervisor "spot checks," wherein a CARL report will be produced, reconciled by Branch Supervisors for the day, and submitted with their monthly cash reports no less than four times per year. The procedure shall be developed by the Finance Office, Quadrant Leaders, Library Automation (IT) and Circulation Supervisor.

2. Endorse checks with a restrictive endorsement stamp immediately upon receipt: RPL policy is consistent with City policy for immediate endorsement of received checks. Upon inquiry with other branches, this is accepted and followed policy. At some locations, checks are endorsed when brought to the safe for deposit as the endorsement stamp is kept in a single/shared location.

RPL Recommendation: Additional City endorsement stamps will be procured to ensure endorsement can occur at register location when received. Endorsement policy will be reviewed with Quadrant Leaders and Branch Managers.

3. Charging and collecting sales tax for book sales: RPL branch sales of used books vary, but a majority of branches conduct a sale period for significant portions of the year. Upon consultation with the RPL's auditor, Freed Maxick, and upon review of NYS Department of

Taxation and Finance Publication 843 (<http://www.tax.ny.gov/pdf/publications/sales/pub843.pdf>), we have determined sales of used materials can be exempted as a fundraising activity. This sales tax exemption can occur for the RPL as long as the sales are not held with a "degree of regularity, frequency, and continuity." Sales are exempt for periodic activity that is defined, limited and exclusive to items wherein the RPL holds title. Any periodicals sold by RPL continue to be exempt from sales tax.

RPL Recommendation: The RPL Finance Office will work with Quadrant Leaders and Branch Managers to define the policy surrounding book sales, emphasizing that they must be for a limited period each year as a fundraising activity. Materials discarded as part of the RPL's collection development not sold at said periodic sales shall be forwarded to the Friends and Foundation of the Rochester Public Library. The policy shall also be submitted for review by the City Law Department.

4. Full documentation for the justification and approval of all waived or cancelled fees: During the period audited, the Monroe Branch did not document \$776.22 of waived fines and fees, representing 45% of total waived revenue. OPI also noted the waiver of under \$30.00 in fees by one RPL employee for the employee's family members. The RPL Finance Office continues to receive monthly fine/fee waiver logs, which are tracked with notations for monthly changes from prior periods. However, this is reliant on accurate monthly reporting by branch managers.

RPL Recommendation: RPL employee fine and fee waiver policies were amended in September 2012, wherein all RPL Branch and Central employee waivers must be approved and documented by supervisors. Branch Managers shall review fine/fee waiver documentation requirements. RPL Finance Office shall select branches for specific periods and verify waiver log against CARL.

It should be noted that the employee in question received written notification of the policy and instruction to refrain from non-employee fine waiver activity, which is included with the employee's personnel file. Any subsequent waiver activity shall result in disciplinary action for the employee.

#### Conclusion

The most recent distribution of written Cash Handling Policy procedures was in 2001. While register and petty cash procedures have remained consistent since that period, minor operating changes have occurred that should be updated in the document. The City's conversion to MUNIS has resulted in several changes for the Finance Office that should also be documented. Moreover, the RPL has expanded options in online/electronic fine and fee payments that should be reflected in the policy. For these reasons, the Finance Office shall conduct a revision to the RPL Cash Handling Policy and re-distribution to staff in 2013.